NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

Financial Statements for the Years
Ended December 31, 2001 and 2000, and
Independent Auditors' Reports

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Administration Central Liquidity Facility (CLF) as of December 31, 2001 and 2000, and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of CLF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Administration Central Liquidity Facility as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002, on our tests of the National Credit Union Administration Central Liquidity Facility's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 22, 2002

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

BALANCE SHEETS
DECEMBER 31, 2001 AND 2000
(Dollars in Thousands)

ASSETS	2001	2000
Cash	$ 13	$ 14
Investments with U.S. Central Credit Union (Notes 5, 8, and 9)	979,922	919,509
Accrued interest receivable	5,095	12,968
TOTAL ASSETS	$ 985,030	$ 932,491

LIABILITIES AND MEMBERS' EQUITY

	2001	2000
LIABILITIES:		
Member deposits (Note 7)	$ 16,817	$ 28,807
Accounts payable and other liabilities	102	107
Total liabilities	16,919	28,914
MEMBERS' EQUITY:		
Capital stock - required (Note 7)	956,709	892,175
Retained earnings	11,402	11,402
Total members' equity	968,111	903,577
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 985,030	$ 932,491

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2001 AND 2000
(Dollars in Thousands)

	2001	2000
REVENUE - Investment income	$ 35,012	$ 58,460
EXPENSES (Note 10):		
Operating expenses:		
Group agent service fee	2	2
Personnel services	110	123
Other services	37	39
Rent, communications, and utilities	8	9
Personnel benefits	23	33
Supplies and materials	2	5
Printing and reproduction	3	4
Total operating expenses	185	215
Interest - Federal Financing Bank notes	46	1,743
Interest - member deposits	212	676
Total expenses	443	2,634
EXCESS OF REVENUE OVER EXPENSES	$ 34,569	$ 55,826

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2001 AND 2000
(Dollars in Thousands)

	Capital Stock	Retained Earnings
BALANCE AT JANUARY 1, 2000	$ 880,953	$ 11,464
Issuance of required capital stock	16,657	-
Redemption of required capital stock	(5,435)	-
Dividends	-	(55,888)
Excess of revenue over expenses	-	55,826
BALANCE AT DECEMBER 31, 2000	892,175	11,402
Issuance of required capital stock	69,600	
Redemption of required capital stock	(5,066)	
Dividends	-	(34,569)
Excess of revenue over expenses	-	34,569
BALANCE AT DECEMBER 31, 2001	$ 956,709	$ 11,402

See notes to financial statements.

NATIONAL CREDIT UNION ADMINISTRATION
CENTRAL LIQUIDITY FACILITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001 AND 2000
(Dollars in Thousands)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenue over expenses	$ 34,569	$ 55,826
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:		
Decrease in accrued interest receivable	7,873	3,468
Decrease in accounts payable and other liabilities	(5)	(624)
Net cash provided by operating activities	42,437	58,670
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, net	(60,413)	(9,625)
Loan principal repayment	-	58,600
Net cash (used in) provided by investing activities	(60,413)	48,975
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to member deposits	2,790	3,426
Issuance of required capital stock	69,600	16,657
Dividends	(34,569)	(55,888)
Withdrawal of member deposits	(14,780)	(2,639)
Redemption of required capital stock	(5,066)	(5,435)
Repayment of Federal Financing Bank notes	-	(1,041,000)
Net cash provided by (used in) financing activities	17,975	(1,084,879)
NET DECREASE IN CASH	(1)	(977,234)
CASH, BEGINNING OF YEAR	14	977,248
CASH, END OF YEAR	$ 13	$ 14

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid during the years ended December 31, 2001 and 2000 was $46 and $2,396 (thousands), respectively

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

1. ORGANIZATION AND PURPOSE

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Central Liquidity Facility Act (the Act). The CLF is designated as a mixed-ownership government corporation under the Government Corporation Control Act. The CLF exists within the National Credit Union Administration (NCUA) and is managed by the National Credit Union Administration Board. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions. The CLF is a tax-exempt organization under Section 501(c)(1) of the Internal Revenue Code.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The CLF maintains its accounting records on the accrual basis of accounting.

Loans and Allowance for Loan Losses – Loans, when made to members, are on a short-term or long-term basis. For all loans, the CLF may obtain a security interest in the assets of the borrower. In determining the allowance for loan losses, when applicable, the CLF evaluates the collectibility of its loans to members through examination of the financial condition of the individual borrowing credit unions and the credit union industry in general.

Investments - The CLF invests in redeposits and share accounts at U.S. Central Credit Union (see Notes 5 and 8). All other investments are short-term with no maturities in excess of one year. All investments are classified as held-to-maturity under Statement of Financial Accounting Standards No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” Accordingly, the CLF records investments at amortized cost.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

a. *Cash* - The carrying amounts for cash approximate fair value.

b. *Investments* - Securities held have maturities of one year or less and, as such, the carrying amounts approximate fair value.

c. *Loans* - For loans advanced to member credit unions, the carrying amounts approximate fair value.

d. *Member Deposits* - Funds maintained with the CLF in excess of required capital amounts are recorded as member deposits. These deposits are due upon demand and the carrying amounts approximate the fair value.

e. *FFB Notes Payable* - For notes issued to the Federal Financing Bank, when applicable, the carrying amounts approximate fair value.

f. *Other* - Accrued interest receivable and accounts payable and other liabilities are recorded at book values, which approximate the respective fair values.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

3. GOVERNMENT REGULATIONS

The CLF is subject to various Federal laws and regulations. The CLF's operating budget requires Congressional approval and the CLF may not make loans to members for the purpose of expanding credit union loan portfolios. The CLF's investments are restricted to obligations of the United States Government and its agencies, deposits in Federally insured financial institutions, and shares and deposits in credit unions. Borrowing is limited by statute to twelve times the subscribed capital stock and surplus. However, there is a Congressional limitation of $1.5 billion on funds that are borrowed and then loaned out at any one point in time.

At December 31, 2001 and 2000, the CLF was in compliance with its borrowing authority.

4. LOANS TO MEMBERS

There were no loans or loan commitments outstanding at December 31, 2001 and 2000. The CLF can provide members with extended loan commitments.

5. FUNDS ON DEPOSIT WITH U.S. CENTRAL CREDIT UNION

Funds not currently required for operations are invested as follows (in thousands):

	December 31,	
	2001	**2000**
U.S. Central Credit Union (see Note 8):		
Redeposit Account	$ 915,246	$ 849,810
Share accounts	64,676	69,699
	$ 979,922	$ 919,509

6. BORROWING AUTHORITY

The Secretary of the Treasury is authorized by the Act to lend up to $500 million to the CLF in the event that the Board certifies to the Secretary that the CLF does not have sufficient funds to meet the liquidity needs of credit unions. This authority to lend is limited to such extent and in such amounts as are provided in advance by Congressional Appropriation Acts. On December 23, 1981, the President signed PL 97-101, which provided $100 million of permanent indefinite borrowing authority that may be provided by the Secretary of the Treasury to the CLF to meet emergency liquidity needs of credit unions. On May 21, 1999, the President signed a midyear spending bill (HR 1141) that authorized the CLF to fully utilize its borrowing authority under the Federal Credit Union Act. Borrowings would be from the Federal Financing Bank with interest generally payable upon maturity. See Note 12.

7. CAPITAL STOCK AND MEMBER DEPOSITS

The required capital stock account represents subscriptions remitted to the CLF by member credit unions. Regular members' required subscription amounts equal one-half of one percent of their paid-in and unimpaired capital and surplus, one-half of which amount is required to be remitted to the CLF. Agent members' required subscription amounts equal one-half of one percent of the paid-in and unimpaired capital and surplus of all of the credit unions served by the agent member, one-half of which is required to be remitted to the CLF. In both cases, the remaining one-half of the subscription is required to be held in liquid assets by the member credit unions subject to call by the National Credit Union Administration Board. These unremitted subscriptions are not reflected in the CLF's financial statements. Subscriptions are adjusted annually to reflect changes in the member credit unions' paid-in and unimpaired capital and surplus. Dividends are declared and paid on required capital stock.

Member deposits represent amounts remitted by members over and above the amount required for membership. Interest is paid on member deposits at a rate equivalent to the dividend rate paid on required capital stock.

8. U.S. CENTRAL CREDIT UNION MEMBERSHIP

During fiscal year 1984, the CLF accepted a membership request from U.S. Central Credit Union (USC) on behalf of its corporate credit union members. At December 31, 2001 and 2000, $915,246,000 and $849,810,000, respectively, of the required portion of subscribed capital stock were purchased from the CLF by USC on behalf of its member credit unions. The CLF has 33 corporate credit union members as of December 31, 2001 and 2000.

In addition, by accepting the USC membership request, the CLF was initially committed to reinvest all but $50,000,000 of its total share capital in USC at market rates of interest. Beginning April 1, 1996, the CLF reinvests all of its agent member share capital in USC at market rates of interest. At December 31, 2001 and 2000, approximately $979,922,000 and $919,509,000, respectively, were invested in USC share accounts at 2.06% and 5.92%, respective yields.

9. CONCENTRATION OF CREDIT RISK

At December 31, 2001 and 2000, the CLF has a concentration of credit risk for its investments on deposit with USC of approximately $979,922,000 and $919,509,000 (see Notes 5 and 8).

10. SERVICES PROVIDED BY THE NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration provides the CLF with data processing and other miscellaneous services and supplies. In addition, the National Credit Union Administration pays CLF's employees' salaries and benefits as well as the CLF's portion of monthly building operating costs. The CLF reimburses the National Credit Union Administration on a monthly basis for these items. Total reimbursements for the years ended December 31, 2001 and 2000, amounted to approximately $183,000 and $213,000, respectively.

11. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the CLF's financial instruments are as follows (in thousands):

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 13	$ 13	$ 14	$ 14
Investments	979,922	979,922	919,509	919,509
Accrued interest receivable	5,095	5,095	12,968	12,968
Member deposits	16,817	16,817	28,807	28,807
Accounts payable and other liabilities	102	102	107	107

12. SHORT–TERM REVOLVING CREDIT FACILITY

One April 23, 2001, the National Credit Union Administration signed a short-term revolving credit facility promissory note with the Federal Financing Bank (FFB) on behalf of the CLF. The note is entitled to the benefits and subject to the requirements of the note purchase agreement executed on July 15, 1999. The short-term revolving credit facility promissory note provides for a commitment amount of $5.0 billion and expires on March 31, 2002.

On July 15, 1999, the National Credit Union Administration signed a note purchase agreement with the Federal Financing Bank (FFB) on behalf of the CLF. The agreement provided for a commitment amount of $20.7 billion and expired on September 30, 2000. Under this agreement, the CLF could request advances from FFB on an anticipatory basis in order to meet possible extraordinary and unpredictable liquidity-need loan demands from member natural person credit unions resulting from the century date change conversion.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Inspector General of the
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Administration Central Liquidity Facility (CLF) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CLF financial statements are free of material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CLF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Inspector General, the Board of the National Credit Union Administration, and the management of the National Credit Union Administration Central Liquidity Facility and is not intended to be and should not be used by anyone other than these specified parties.

February 22, 2002